



May 3, 1996

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William F. Caton  
Acting Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, DC 20554

MAY 6 1996  
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Dear Mr. Caton:

Enclosed is an original and nine copies of the reply comments of GVNW Inc./Management in response to the Commission's Notice of Proposed Rulemaking in CC Docket 96-45 (Reference FCC 96-93).

Also enclosed is one copy of our reply comments to be stamped and returned in the enclosed self addressed stamped envelope.

Any questions regarding this filing may be directed to me at (503) 624-7075.

Sincerely,

Kenneth T. Burchett  
Vice President

cc: International Transcription Service  
Room 246  
1919 M Street  
Washington, DC 20054

Encl.

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Before the  
Federal Communications Commission  
Washington, D.C. 20554

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In the Matter of

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Federal-State Joint Board on  
Universal Service

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CC Docket 96-45

### **REPLY COMMENTS OF GVNW INC./MANAGEMENT**

GVNW Inc./Management (GVNW) respectfully submits its reply comments in the above -referenced proceeding. GVNW is a consulting firm providing services to local exchange carriers nationwide. Our client companies have been, and continue to be, the sole providers of quality and affordable universal service for many rural areas in this country. GVNW's reply comments are being provided on behalf of the Local Exchange Carriers listed in Appendix B.

### **UNIVERSAL SERVICE PRINCIPLES**

Many parties commenting on the commission's notice of proposed rule making (NPRM) have articulated that the goal of universal service should be a core of services which receive explicit support for low income consumers and consumers in rural, insular and high cost areas. Parties further define a core group of services which would be supported by universal service funding as single party service, touch tone, access to

emergency services, access to operator services, and general access to providers of telecommunications services. Additionally, most parties were opposed to including advance communications as a service which should be targeted for support in high cost rural and insular areas. We feel that issue is worthy of further comment.

After further consideration we now believe that the commission should establish a definition of advanced telecommunications which would receive support. The core group of services being contemplated by some parties is too narrow. Touch tone is a good example of how services transition from advanced to core services. Children today might ask "what is that round thing" on a rotary dial phone but at one time it was the standard and touch tone was advanced.

Rural telephone companies have been at the forefront in providing advanced services. Rural telephone companies were among the first to acquire digital switching technologies. Rural telephone companies were among of the first to deploy fiber optic transmission facilities. Rural telephone companies were there to provide Universal Service to all the residents in their service areas.

We agree with certain comments made by Alliance for Public Technology (APT) with regards to advanced communications which in part stated at page 4 "we fear that a minimalist definition of universal service will not provide sufficient incentives for infrastructure investment necessary to foster rapid development of advanced networks and services". APT states :

"APT'S position is simply stated: it favors most utilizing section 706 incentives for carriers to provide the most advanced network and services

to all areas of the country. We believe that universal service subsidies and recovery mechanisms can qualify as a section 706 incentive. To do so will lower the cost of providing services, ultimately minimizing the cost of traditional service mechanisms, such as life line and link-up.”<sup>1</sup>

To our surprise, APT, after making a good argument for including advanced telecommunications services in the core group of universal services, APT places the following footnote on page 14.

APT is concerned that universal service policies not promote the continuation of uneconomic business enterprises such as very small telephone companies. Small phone companies serving very small populations do not enjoy the economies of scope and scale inherent in larger telecommunications networks. Federal policies that encourage the maintenance of these uneconomic entities do not serve to incent widespread deployment of advanced network infrastructure.<sup>2</sup>

APT, which is an alliance of 105 public interest groups and more than 200 individuals has not adequately considered that the small telephone companies are the very organizations which provide the most technically advanced services to a group of consumers that larger telecommunications networks have traditionally not serviced well. A recent trend has been for some large operating companies to shed its rural serving areas. The small local telephone companies purchased many of the small exchanges from

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<sup>1</sup> APT, p. 12

<sup>2</sup> APT, p. 14

the larger operating companies and deployed new technology which replaced antiquated circa 1950's switching technology.

APT's pronouncement that small telephone companies should not be recipients of federal support would act to discourage the very type of investment in infrastructure that APT is advocating. Many rural Americans would be without telephone service if it were not for the small telephone companies.

Small rural telephone companies were and are on the leading edge of offering local access to the Internet . On some occasions the equipment or technical expertise was donated to libraries and schools. The barrier to consumers for advanced services is the cost of deploying high capacity facilities to hospitals, schools, libraries, health providers, and ultimately homes. It is not the service that needs support, it is the infrastructure to reach the service.

The California Department of Consumer Affairs has also recognized that the infrastructure for advanced services is a hinge pin by saying:

Perhaps the most beneficial action the FCC can take to assist in the availability and deployment of advanced telecommunications and information services to schools, libraries and health care providers—to all of society—is to provide incentives for the telecommunications market to deploy a fiber optic, broadband network platform.....<sup>3</sup>

A number of parties have commented on the legislative mandate for discounts to schools, libraries, and health care providers. We wish to remind all parties that discounts

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<sup>3</sup> California Department of Consumer Affairs, p. 21

for services is an academic exercise unless the infrastructure is deployed to provide access to advanced services.

Harris, Skrivan & Associates has made similar observations by noting:

It is more important for rural subscribers to have advanced telecommunications services than to have competitive alternatives. The commission should sponsor initiatives that work through local exchange carriers to bring advanced services to rural America.....<sup>4</sup>

We believe that if the industry is to be successful in providing rural communities reasonably priced services which are similar to the same services provided to urban consumers, then consideration should be given to providing a support mechanism for the development of an advanced telecommunications infrastructure in rural communities. The infrastructure for advanced services for hospitals, libraries, schools, and health care providers is, without question, needed. We suggest that the FCC consider establishing explicit funding for those advanced telecommunications infrastructure which is deemed to be in the public interest.

The commission has several authorities to include advanced telecommunication infrastructure in the core group.

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<sup>4</sup> Harris Skrivan & Associates p. 16

**Section 254 (2)(b) (2)**

**ACCESS TO ADVANCED SERVICES-** Access to advanced telecommunications and information services should be provided in all regions of the nation.

**Section 254 (2) (b) (3)**

**ACCESS IN RURAL AND HIGH COST AREAS-** Consumers in all regions of the nation, including low income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

**Section 254 (2) (b) (6)**

**ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES.-** Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).

**Section 254 (2) (c) (1)**

**IN GENERAL-** Universal service is an evolving level of telecommunications services that the commission shall establish periodically under this section, taking into account advances in

telecommunications and information technologies and services. the Joint Board in recommending, and the commission in establishing, the definition of the services that are supported by universal service support mechanisms shall consider the extent to which such telecommunications services-

- (A) are essential to education, public health or public safety;
- (B) have, through the operation of market choices by customers, been subscribed to by a substantial majority of residential customers;
- (C) are being deployed in public telecommunications networks by telecommunications carriers; and
- (D) are consistent with the public interest, convenience, and necessity.

Section 254 (2) (c) (2)

**SPECIAL SERVICES-** In addition to the services included in the definition of universal service under paragraph (1), the commission may designate additional services for such support mechanisms for schools, libraries, and health care providers for the purposes of subsection (h).

It is abundantly clear that Congress, in adopting the act, was not just giving causal lip service to advanced telecommunications services. The many references to advance telecommunications services can only leave the reader to conclude that provision of



advanced telecommunications infrastructure IN THE CORE GROUP of universal service were as much a concern to the authors of the act than as was the provision of plain old telephone service (POTS).

We believe that the commission has authority to include advanced telecommunications infrastructure in the core group of universal services by linking section 254 as sited previously with section 706 following:

#### SECTION 706 ADVANCED TELECOMMUNICATIONS INCENTIVES.

##### Section 706 (a) In General

The commission and each state commission with regulatory jurisdiction over telecommunications services shall encourage the deployment on a reasonably and timely basis of advanced telecommunications capability to all Americans ( including, in particular, elementary and secondary schools and classrooms) by utilizing, in a manner consistent with the public interest, convenience, an necessity price cap regulation, regulatory forbearance , measures that promote competition in the local telecommunications market, or other regulation methods that remove barriers to infrastructure investment. ( emphasis added)

We believe that the commission should provide for explicit support for the development of advanced telecommunications infrastructure to be utilized for providing advanced telecommunications services to schools (elementary and secondary) health service providers and libraries.

It is also amply clear that federal and state regulators have an affinity to competition as one of the answers to providing economically priced access to advanced services in urban areas. However, specific explicit rules should be established to provide adequate access to advanced telecommunications services to rural communities.

## **DEFINITION OF SERVICES SUPPORTED BY UNIVERSAL SERVICE**

### **MECHANISMS**

In our comments filed in this proceeding, GVNW listed the services we believe should be included in the core set of services to be supported by universal service as: voice grade access to the public switched network; touch-tone; white page directory listings; access to operator services and directory assistance; and, access to emergency services such as 911 or Enhanced 911. We believe that all of these services meet the four criteria laid out in Section 254(c)(1) of the Communications Act of 1996. In the above definition, “access to” should be interpreted as providing the telecommunications link to a network from which these services may be obtained, and not providing support for the actual services (i.e., operator services, directory assistance, 911 and E911) themselves. Many other commenting parties had similar lists<sup>5</sup>

In determining what additional services should be added to the definition of universal service the rural coalition points out, “the ‘evolving level of universal service’ is guided by the four criteria which the NPRM correctly notes are to be considered. However, a service need not satisfy all four for inclusion in the federal universal service

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<sup>5</sup> Ameritec, pp.6-7; GTE, p. 2; SWBT, pp. 8-9; USTA, pp. 12-14.

definition.” Any additional services that may be added to the list of Universal Services should be carefully reviewed using the four criteria contained in the Act.

In our comments, we indicated that services provided in the core of “universal services” should be provided to all customers, and support for high cost areas should not be limited to a certain class of customers, such as residential customers over business customers. Support for high cost should continue to be provided to the company placing the infrastructure. Support to individual classes of customers should continue to be handled through the Lifeline and Link-up programs. To further established the concept of support being provided to the company that supplies the infrastructure without discriminating among various classes of users, the rural coalition indicated that , “Congress also recognized that support for ‘universal services’ involves supporting network facilities and capabilities. Section 254(e) restricts support for federally defined services solely to ‘provision, maintenance, and upgrading of the facilities and services; intended to receive support. Federal support is also required to be ‘sufficient’ to achieve the purposes of Section 254, which are prescribed in the six principles of Section 254(b)(1)-(6). The suggestion in the NPRM that the federal support might be limited to residential services is inconsistent with these principles. Rural economies depend on access to high quality, advanced and affordable service in order to be competitive in the global economy.”<sup>6</sup>

As networks develop and services become available to the majority of subscribers, those services should be evaluated for inclusion in the core list of services supported by the universal service support mechanisms.

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<sup>6</sup> Rural Telephone Coalition, p. 8.

**SHOULD HIGH COST SUPPORT FOR UNIVERSAL SERVICE CONTINUE TO  
BE INCORPORATED IN THE JURISDICTIONAL SEPARATIONS RULES?**

GVNW believes the separations rules should continue to be used as the method for assigning high cost that is to be supported by the Federal support mechanism for “rural telephone companies”. We recognize that other mechanisms may be necessary for the serving areas of larger telephone companies where local competition is likely to be introduced at a much greater pace and extent than in “rural telephone company” serving areas. We believe that universal service provisions related to “rural telephone companies” can be implemented with minimal changes to the Part 36 separations rules while still being consistent with the Telecommunications Act of 1996. The United States Telephone Association (USTA) supports a similar position as indicated in their comments:

“In order to assist in ensuring that the rates for the core services are affordable and reasonably comparable, the FCC and the Joint Board should establish a fund to recover the interstate portion of the loop costs of serving high costs, insular, rural and unserved areas that are above an affordability benchmark. An interstate affordability benchmark equal to the nationwide average loop cost to replace the current EUCL caps will meet those goals.

In order to better assure affordability in rural areas, the current USF and DEM weighting should be continued for rural telephone companies only. These

explicit mechanisms will assist only those companies that lack economies of scale and scope to deaverage prices over their service areas.”<sup>7</sup>

GVNW has provided some proposed rules in Appendix A to these reply comments which can be used to implement the jurisdictional separations changes.

### **Current Universal Service Fund and DEM Weighting**

The current expense adjustment procedures for assigning high loop cost to the interstate jurisdiction and the Dial Equipment weighting procedures for assigning additional switching cost to the interstate jurisdiction should continue for “rural telephone companies” with minor modifications. The proposed wording for the changes to incorporate this in the Part 36 rules is contained in Appendix A of these reply comments.

With regard to the interstate expense adjustment calculation (USF), we recommend the lag be removed from the rules by changing the appropriate dates. Initial reimbursement for USF funds could be based on estimated costs for the year with true-ups completed when actual data is available. The cost associated with the interstate expense adjustment should be for the same period as those costs included in subparts B, D, and E of the Part 36 rules.

With regard to the DEM weighting procedures, the Part 36 should remain the same, but the Part 69 rules should be adjusted so that the difference between interstate allocations based on the unweighted DEM and the weighted DEM is collected through an external support fund rather than through the rates charged to the interexchange carriers on a per minutes of use basis. AT&T proposes an alternative method for the explicit

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<sup>7</sup> United States Telephone Association (USTA), p. ii.

recovery of the high cost portion of the switch for rural companies. AT&T's approach would focus on setting the rural companies rates at a level equivalent to the Tier 1 Carriers rates in the same region.<sup>8</sup> The excess cost over the amount collected from the rates would be recovered through the support fund. This is a reasonable alternative to identifying the DEM weighting portion of the interstate switch cost as the support requirement. This approach is quite similar to the current carrier common line and long term support approach.

Many parties agree that the DEM weighting program should continue, at least for rural companies.<sup>9</sup>

#### **TRANSITION OF CARRIER COMMON LINE CHARGES**

In our Comments, GVNW supported the further transition of Common Line costs away from the interexchange carriers per minute of use charge i.e., we supported a shift from the CCL toward the end user. Some parties argue that to transition all of the joint cost of the loop to the end user would in essence move us back to the "board to board" concept which was overturned in the Smith Vs. Illinois Bell case. There appears to be merit in evaluating a transition away from the CCL per minute of use charge to a flat rate charge on interexchange carriers to recover a portion of the jointly used loop facilities.

The Commission's concerns about the continuation of the Long Term Support program should be reviewed in concert with the transition to higher End User Charges,

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<sup>8</sup> AT&T, p. 18.

<sup>9</sup> USTA, p. 16; Rural Coalition, p. 16; SWBT, pp. 17-18:

elimination of the per minute common line charges, and the possible initiation of a flat rate common line charge on interexchange carriers..

### **GEOGRAPHIC AREAS**

In our comments, GVNW recognized that the current study areas may not be the appropriate level for determining support as we move into a more competitive environment. In non rural areas the use of a smaller area may be desired if competition moves in to serve only a portion of the incumbent's study area. We believe, however, that the move to the census block group as the primary geographic area is ill advised because of it's inherent inaccuracy and the administrative cost associated with such a move. We support the initial movement toward an exchange or wire center as a more appropriate step toward targeting high cost support. Adoption of support areas below the wire center level should be made only as a result of a showing that competition exists in only portions of the wire center for non-rural companies, and should be part of the public interest determination involved in competitors seeking to gain eligibility to serve in portions of rural telephone companies areas.

If the Commission makes any changes in its rules, a full financial evaluation of the proposed changes should be made before the rules are adopted and implemented. This especially holds true if a model such as the BCM is considered. With regards to the Benchmark Costing Model (BCM), we believe it inappropriate as a substitute for actual cost. Using the BCM as a surrogate for actual cost will provide financial incentives that work contrary to the deployment of infrastructure in rural high cost areas. The incentive will be to meet the proxy criteria in order to get the support, not to invest the money in

infrastructure and maintenance of the facilities. GVNW expressed a number of initial concerns with the BCM in previous comments before the Commission, comments which are still valid in evaluating the use of the BCM.<sup>10</sup> While it is not appropriate to use the BCM as a substitute for actual total cost, GVNW could see the BCM being evaluated and modified to be used as a tool in desegregating total actual cost to a smaller geographic area for determining support for that smaller area.

Before any model should be adopted, it should be thoroughly tested and proven to provide reliable results. The tests conducted by SWBT related to the BCM, and tests conducted by GVNW on other models indicate there is a great disparity between the model results and the actual cost of providing service.

In their comments, SWBT provided the following:

“SWBT has analyzed the Benchmark Costing Model (BCM) and is convinced that it does not provide a reasonable comparison to actual costs by study area (company) or by wire center”. The Joint Sponsors have admitted that “[t]he BCM does not define the actual cost of any telephone company, nor the embedded costs that a company might experience in providing telephone service today”. However, before any model can be adopted, the validity of that model must be established by testing its hypothesis against known and measurable results. The only appropriate test is the comparison to actual network costs of study areas across the nation.

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<sup>10</sup>See Comments of GVNW Inc./Management, filed with the Commission in Docket 80-286, October 9, 1995, pp. 45-46.



SWBT has compared the BCM for each State and each incumbent LEC (1,511 study areas, of which 795 are 'Cost' study areas, 616 are 'Average Schedule' study areas, and an additional 100 study areas created by the BCM due to its mapping process) to actual Universal Service Fund (USF) information as reported to the National Exchange Carriers Association (NECA) for each of the following items:

- BCM investment per household to USF investment per loop
- BCM loop costs per household to the USF loop costs per loop
- BCM investment by wire center to SWBT actual embedded costs by wire center.
- BCM calculated count of households and square miles for each LEC to its actual data as reported to the Commission in response to the USF data request.

The results of SWBT's analysis show that:

1. The BCM calculated loop investment per household is at least 50% different than actual company results for 34% of the LECs (see Attachment 5, p. 4).
2. The BCM ARMIS-based annual cost calculation is at least 50% different than actual data for 40% of the LEC study areas (Attachment 5, p. 8)
3. The BCM Hatfield-based annual cost calculation is at least 50% different than actual data for 29% of the LEC study areas. (Attachment 5, p. 8)

The BCM investment per household was different by at least 25% for 85% of SWBT's 506 wire centers in Texas. (Attachment 5, p. 17)

The BCM significantly misstates the size of areas associated with a LEC's operations and the numbers of customers (or households) in a LEC's service

areas. These problems with the BCM are caused by difficulty of and inaccuracies in mapping of Census data to carrier operating boundaries.

In contrast to the simulated costs advocated in the BCM, actual cost data has been reported under uniform procedures by LECs and audited by the Commission and State commissions for many years. Substituting a cost proxy for reliable factual data, much less a cost proxy as demonstrably inaccurate as the BCM, is unwarranted and unreasonable. Use of the BCM will deny eligible carriers both incumbent LECs and new entrants, recovery of the actual historical costs of providing universal service. The areas identified as high cost by the BCM are not always high cost and some actual high cost areas are missed entirely by the BCM. Thus, the BCM merely identifies areas assumed to have the highest costs, not areas where the highest costs actually are. Adopting a demonstrably inaccurate proxy model to address the assumed unwillingness of new entrants to offer consistent, uniform, accurate, and actual data comparable to that supplied by an incumbent LEC is simply wrong. To be competitively neutral in its treatment of incumbents and new entrants, the Commission should not adopt an inaccurate, unreliable, and unrepresentative benchmark cost model, but rather should require all eligible carriers to use a simplified version of the Commission's cost allocation rules."<sup>11</sup>

GVNW has been involved in testing various models in state proceedings, for example Michael Schlachter GVNW Vice President and General Manager provided reply testimony in California's Universal Service proceeding (Ref. R. 95-01-020 and I. 95-01-

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<sup>11</sup> SWBT, pp. 14-16.

021). In this testimony, Mr. Schlachter provided comparison of actual data to proxy data from the Hatfield model and Pacific Bell's Cost Proxy Model (CPM). The comparisons are for five small LECs providing service to California subscribers.

The comparison of the Hatfield model access lines compared to actual year-end 1995 is as follows:

Company	Hatfield Figure	Actual Data	Difference	% Error
Evans	9,491	7,792	1,699	22%
Kerman	5,068	4,147	921	22%
Pinnacles	195	146	49	34%
Siskiyou	4,021	3,058	963	31%
Volcano	9,042	7,548	1,494	20%

A comparison of outside plant investment from the Hatfield Model compared to year end 1995 actual is shown below. the Hatfield model includes feeder, distribution and interoffice estimates. The percentage of residential access lines is provided for purposes of comparison, because the actual company data includes all access lines rather than just the estimate for residential lines.

Company	Hatfield	Actual OSP	%res/total lines
Evans	\$5,543,000	\$10,052,000	78%
Kerman	3,440,000	6,057,000	79%
Pinnacles	823,985	1,235,548	71%
Siskiyou	8,851,980	10,851,276	75%
Volcano	5,754,352	14,918,000	83%

A comparison of switch investment from the Hatfield Model compared to year end 1995 actual shows the following:

Company	Hatfield switch estimate	Actual switch investment
Evans	\$3,126,000	\$5,076,000
Kerman	1,746,412	2,213,000
Pinnacles	83,000	451,000
Siskiyou	1,578,404	4,526,000
Volcano	3,027,000	9,353,242

A comparison of the operating expenses from the Hatfield Model compared to actual 1995 data is as follows:

Company	Hatfield Operating Expenses	Actual Operating Exp.
Evans	\$716,000	\$3,448,776
Kerman	364,000	2,310,271
Pinnacles	59,000	390,000
Siskiyou	600,000	2,666,912
Volcano	627,000	4,114,000

The comparison of CPM access lines compared to actual year-end 1995 is as follows:

Company	CPM Figure	Actual Data	Difference	% Error
Evans	10,190	7,792	2,398	31%
Kerman	5,485	4,147	921	22%
Pinnacles	15	146	131	90%
Siskiyou	3,108	3,058	50	2%
Volcano	4,407	7,548	3,141	42%

A comparison of outside plant investment from the CPM compared to year end 1995 actual shows the following:

Company	CPM Figure	Actual OSP	%Res/total Lines
Evans	\$10,761,000	\$10,052,000	78%
Kerman	6,532,635	6,057,000	79%
Pinnacles	65,625	1,232,000	71%

Siskiyou	5,902,092	10,851,276	75%
Volcano	7,527,156	14,918,000	83%

A comparison of switch investment from the CPM compared to year end 1995 actual shows the following:

Company	CPM Switching Investment	Actual Switching Investment
Evans	\$2,050,000	\$5,076,000
Kerman	1,157,000	2,213,000
Pinnacles	65,000	451,000
Siskiyou	952,082	4,526,000
Volcano	2,123,000	9,353,000

A comparison of the operating expenses from the CPM compared to actual 1995 data is as follows:

Company	CPM Operating Expenses	Actual Operating Expenses
Evans	\$3,955,000	\$3,449,000
Kerman	1,672,000	2,310,000
Pinnacles	207,000	390,000
Siskiyou	2,418,000	2,667,000
Volcano	3,953,000	4,114,000

As the above tables clearly depict, the proxy models do not do a good job of estimating actual data for small LECs.

### **COMPETITIVE BIDDING PROCESS**

As stated in our comments, GVNW believes it is premature for the Commission to seriously consider the competitive bidding of support levels as a means of meeting Universal Service obligations. The Commission needs to carefully consider how the

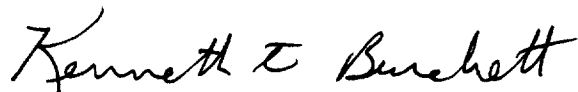
bidding process might result in a death spiral for the incumbent LECs that have deployed significant infrastructure and rely on the current level of support to maintain their financial viability. In small rural companies the loss of customers would result in a loss of revenues without necessarily a corresponding reduction in costs. In considering the competitive bidding process, the Commission should strongly consider measures that would assure the new entrants' ability to meet the Universal Service requirements for all customers affected, if the incumbent were to be dragged into insolvency. The Commission should also address the social compact which has resulted in the incumbent investing in the infrastructure and operations of the telephone company under the existing and prior rules.

We also do not believe the competitive bidding process meets the principles outlined in the Communications Act of 1996. Specifically, this approach will likely not meet the requirement of specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service. The enforcement issue would be significant in any such effort.

## **CONCLUSION**

GVNW supports the principles for Universal Service which were adopted by Congress in the Telecommunications Act of 1996. We believe the separations process is an appropriate and necessary tool in assigning high costs to the interstate jurisdiction for recovery from the Federal Universal Service Support Mechanism. We have included in Appendix A to this filing our proposed rules to implement certain change we proposed in our comment in this proceeding.

Any change in the rules should be proceeded with a full financial evaluation of the proposed changes impacts. If the impacts are significant on any of the affected parties, appropriate transition periods must be evaluated.

A handwritten signature in black ink that reads "Kenneth T. Burchett". The signature is written in a cursive, flowing style.

Respectfully submitted,  
Kenneth T. Burchett  
Vice President

### § 36.125 Local switching equipment - Category 3.

(a) Local switching equipment is included in accounts 2210, 2211, 2212 and 2215. It comprises all central office switching equipment not assigned other categories. Examples of local switching equipment are basic switching train, toll connecting trunk equipment, interlocal trunks, tandem trunks, terminating senders used for toll completion, toll completing train, call reverting equipment, weather and time of day service equipment, and switching equipment at electronic analog or digital remote line locations. Equipment used for the identification, recording and timing of customer dialed charge traffic, or switched private line traffic (e.g., transmitters, recorders, call identify indexers, perforators, ticketers, detectors, mastertimers) switchboards used solely for recording of calling telephone numbers in connection with customer dialed charge traffic, or switched private line traffic (or both) is included in this local switching category. Equipment provided and used primarily for operator dialed toll or customer dialed charge traffic except such equipment included in Category 2 Tandem Switching Equipment is also included in this local switching category. This includes such items as directors, translators, sender registers, out trunk selectors and facilities for toll intercepting and digit absorption. Special services switching equipment which primarily performs the switching function for special services (e.g., switching equipment, TWX concentrators and switchboards) is also included in this local switching category.

(1) Local office, as used in § 36.125, comprises one or more local switching entities of the same equipment type (e.g., step-by-step, No. 5 Crossbar) in an individual location. A local switching entity comprises that local central office equipment of the same type which has a common intermediate distributing frame, marker group or other separately identifiable switching unit serving one or more prefixes (NNX codes).

(2) A host/remote local switching complex is composed of an electronic analog or digital host office and all of its remote locations. A host/remote local switching complex is treated as one local office. The current jurisdictional definition of an exchange will apply.

(b) Beginning January 1, 1998, Category 3 investment for non-rural study areas (rural being defined in the Telecommunications Act of 1996) is apportioned on the basis of relative dial equipment minutes of use, (DEM) i.e., the minutes of holding time of the originating and terminating local switching equipment, as holding time is defined in the Glossary.

(c) For rural study areas Category 3 investment is apportioned by the application of an interstate allocation factor that is the lesser of either .85 or an amount as follows: Beginning January 1, 1998, the amount will equal the DEM factor specified in § 36.125(b) multiplied by a weighting factor. The applicable weighting factor is as follows:

NUMBER OF ACCESS LINES IN SERVICE IN STUDY AREA	WEIGHTING FACTOR
0 - 10,000 .....	3.0
10,001 - 20,000 .....	2.5
20,001 - 50,000 .....	2.0
50,001 - or above .....	1.0

(d) For purposes of this section, an access line is a line that does not include WATS access lines, special access lines or private lines.

### § 36.126 Circuit equipment - Category 4.



## Subpart F - Universal Service Fund

### § 36.601 General.

(a) The Universal Service Fund is derived from an expense adjustment that shall be computed in accordance with this subpart F. This adjustment shall be added to interstate expenses and deducted from state expenses after expenses and taxes have been apportioned pursuant to subpart D.

(b) The expense adjustment will be computed on the basis of data for the applicable calendar year which may be updated at the option of the carrier pursuant to § 36.612(a).

(c) The total Universal Service Fund shall consist of the Universal Service expense adjustments, including amounts calculated pursuant to §§ 36.612(a) and 36.631.

## DATA COLLECTION

### § 36.611\* Submission of information to the National Exchange Carrier Association (NECA).

(a)\* In order to allow determination of the study areas which are entitled to an expense adjustment, each local telephone company must provide the National Exchange Carrier Association (NECA) (established pursuant to Part 69 of the Commission's Rules) with the information listed below for each of its study areas. This information is to be filed with the Association on June 30th of each year. The information filed on June 30th of each year will include the prior years actual data to be used for trueing up that period, and will include an estimate for the next year to be used in the jurisdictional allocations underlying the cost support data for the access charge tariffs to be filed the following October.

(1) Unseparated, i.e., state and interstate, gross plant investment in Exchange Line Cable and Wire Facilities (C&WF) Subcategory 1.3 and Exchange Line Central Office (CO) Circuit Equipment Category 4.13. This amount shall be calculated using the simple average beginning of year and end of year for the respective study periods.

(2) Unseparated accumulated depreciation and noncurrent deferred federal income taxes, attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. These amounts shall be calculated using the simple average beginning of year and end of year for the respective study periods.

(3) Unseparated depreciation expense attributable to Exchange Line C&WF Subcategory 1.3 investment, and Exchange Line CO Circuit Equipment Category 4.13 investment. This amount shall be the actual depreciation expense for the respective calendar year.

(4) Unseparated maintenance expense attributable to Exchange Line C&WF Subcategory 1.3 investment and Exchange Line CO Circuit Equipment Category 4.13 investment. This amount shall be the actual depreciation expense for the respective calendar year.

(5) Unseparated corporate operations expenses, operating taxes, and the benefits and rent portions of operating expenses. The amount for each of these categories of expense shall be the actual amount for that expense for the respective calendar year. The amount for each category of expense listed shall be stated separately.